

# *Village of Otter Lake*

**Lapeer & Genesee Counties, Michigan**

Audited Financial Report

February 28, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Otter Lake	County Lapeer & Genesee
Fiscal Year End February 28, 2006	Opinion Date May 16, 2006	Date Audit Report Submitted to State September 25, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lehn L. King, C.P.A.		Telephone Number 989-635-3113	
Street Address 3531 Main Street		City Marlette	State MI
		Zip 48453	
Authorizing CPA Signature 		Printed Name Lehn King	License Number A248781

**Village of Otter Lake**  
Annual Financial Report  
For The Fiscal Year Ended February 28, 2006

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Members of the Village Council  
**Village of Otter Lake**  
Lapeer County, Michigan

**Independent Auditor's Report**

I have examined the General Purpose Financial Statements of the Village of Otter Lake as of February 28, 2006, and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Otter Lake, Michigan as of February 28, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Otter Lake, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of March 1, 2004.

*Lehn King*

**Certified Public Accountant**

May 16, 2006

# ***VILLAGE OF OTTER LAKE***

## ***Otter Lake, Michigan***

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER**

Our discussion and analysis of the Village of Otter Lake's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2006. Please read it in conjunction with the Village's financial statements.

#### **Financial Highlights**

The Village of Otter Lake has undertaken the construction of a sewer collection and treatment system. This project will be completed on the basis of a loan, not to exceed \$2,540,000, and a grant, not to exceed \$1,730,000. The loan is to be serviced with a Special Assessment of \$10,475 per Village property. The total Special Assessment roll is 242.5 customers using the system over the period of 40 years. The annual operations charge for each of the customers is \$236.05.

The Village contracted with Michigan Department of Transportation on a street project that took place at the completion of the sewer project. The cost of the road project was approximately \$466,000, which was funded by a grant in the amount of \$450,000.

The Village of Otter Lake has implemented a Downtown Development Authority (DDA). The reason for this is to capture incremental tax increases from the various taxing units of government. This captured tax is to be used to develop the downtown area of the Village of Otter Lake.

#### **Using this Report**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No.34. GASB Statement 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the Village's annual report.

#### **The Village as a Whole**

The Village of Otter Lake's cash balances are as follows:

	<b>February 28, 2006</b>	<b>February 28, 2005</b>
General Fund	\$ 6,702	\$ 62,796
Major Streets Fund	26,025	27,773
Local Streets Fund	4,066	5,893
Downtown Development Authority	9,828	-
Capital Improvement Fund	149	781
Special Assessment Obligation Bond Fund	221,092	125,925
Debt Retirement Obligation Bond Fund	18,610	10,491
Total for Village	<u>\$ 286,472</u>	<u>\$ 233,659</u>

# Village of Otter Lake

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## Governmental Activities

The Village of Otter Lake's Revenues and Expenditures can be summarized as follows:

	<b>General Fund</b>	<b>Street Funds</b>	<b>Capital Project Fund</b>	<b>Debt Service Funds</b>	<b>Total Governmental Activities</b>
<b>Fund Balance - Beginning of Year</b>	\$ 62,796	\$ 33,666	\$ 781	\$ 136,416	\$ 233,659
<b>Revenue Collected</b>					
Intergovernmental Revenue	50,152	45,977	-	-	96,129
Property Taxes & Special Assessments	82,254	-	-	158,933	241,187
Bond & Grant Proceeds	451,080	-	3,223,433	-	3,674,513
Other	113,031	72	22	6,080	119,205
Total Revenue Collected	<u>696,517</u>	<u>46,049</u>	<u>3,223,455</u>	<u>165,013</u>	<u>4,131,034</u>
<b>Expenditures</b>					
General Government	112,783	-	-	-	112,783
Public Safety	26,825	-	-	-	26,825
Public Works	76,330	49,623	-	-	125,953
Recreation & Culture	39,712	-	-	-	39,712
Capital Outlay	470,568	-	3,206,244	-	3,676,812
Debt Service	26,393	-	-	79,570	105,963
Transfers	-	-	17,843	(17,843)	-
Total Expenditures	<u>752,611</u>	<u>49,623</u>	<u>3,224,087</u>	<u>61,727</u>	<u>4,088,048</u>
<b>Fund Balance - End of Year</b>	<u>\$ 6,702</u>	<u>\$ 30,092</u>	<u>\$ 149</u>	<u>\$ 239,702</u>	<u>\$ 276,645</u>

## Economic Factors and Next Year's Budget and Rates

The Village of Otter Lake's General Fund budget for next year is approximately the same budget as a year ago, with the an exception for the grant received from the Michigan Department of Transportation. Budgets were not adopted for the Capital Project Fund and the Debt Service Funds. All other future activities of the Village seem to be consistent with past years.

# Village of Otter Lake

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## **Contacting the Village**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Village office at 5902 Genesee, Box 193, Otter Lake, Michigan or by telephone at (810) 793-2665.

David Dorr  
Village of Otter Lake President

**Village of Otter Lake**  
Statement of Net Assets (Deficit)  
February 28, 2006

	<b><u>Primary Government Governmental Activities</u></b>
<b><u>Assets</u></b>	
Cash & Cash Equivalents	\$ 265,433.26
Receivables:	
Property Taxes	24,670.65
Special Assessments	2,320,217.40
Grants	141,026.49
Capital Assets	
Nondepreciable Capital Assets	62,162.68
Depreciable Capital Assets	<u>5,023,714.11</u>
Total Assets	7,837,224.59
<b><u>Liabilities</u></b>	
Accounts Payable	144,658.71
Accrued Interest Payable	18,645.00
Current Portion of Long-Term Debt	84,808.00
Noncurrent Liabilities:	
Long-Term Debt	<u>2,611,166.00</u>
<u>Total Liabilities</u>	<u>2,859,277.71</u>
<b>Net Assets (Deficit)</b>	
Invested in Capital Assets - Net of Related Debt	2,371,257.79
Restricted:	
Reserved for Debt Service	2,559,919.21
Reserved for Capital Projects	48.51
Unrestricted	<u>46,721.37</u>
<u>Total Net Assets (Deficit)</u>	<u><u>\$ 4,977,946.88</u></u>

The notes are an integral part of the statements.



**Village of Otter Lake**  
Statement of Activities  
For the Year Ended February, 28, 2006

		Program Revenues			Net (Expense) Revenue & Changes in Net Assets
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government Governmental Activities
<u>Functions/Programs</u>	<u>Expenses</u>				
Primary Government:					
Governmental Activities:					
General Government	\$ 114,185.40	\$ 34,931.52	\$ -	\$ -	\$ (79,253.88)
Public Safety	26,825.35	-	-	-	(26,825.35)
Public Works	158,018.23	-	45,977.13	2,051,106.36	1,939,065.26
Recreation & Culture	40,192.24	53,762.62	-	-	13,570.38
Interest on Long-Term Debt	81,927.26	-	-	-	(81,927.26)
<u>Total Governmental Activities</u>	<u>\$ 421,148.48</u>	<u>\$ 88,694.14</u>	<u>\$ 45,977.13</u>	<u>\$ 2,051,106.36</u>	<u>\$ 1,764,629.15</u>
<b>General Revenues:</b>					
Property Taxes					\$ 98,691.91
State Shared Revenues					50,152.12
Interest					75,546.69
Other Revenues					19,626.83
Transfers					-
Total General Revenues, Special Items & Transfers					<u>244,017.55</u>
<b>Change in Net Assets</b>					2,008,646.70
<b>Net Assets (Deficit) - Beginning of Year</b>					<u>2,969,300.18</u>
<b>Net Assets (Deficit) - End of Year</b>					<u>\$ 4,977,946.88</u>

The notes are an integral part of the statements.

# Village of Otter Lake

Balance Sheet  
Governmental Funds  
February 28, 2006

					<u>Debt Service Funds</u>			
	<u>General</u>	<u>Major</u>	<u>Local</u>	<u>Downtown</u>	<u>Special</u>	<u>Debt</u>	<u>Capital</u>	<u>Total</u>
	<u>Fund</u>	<u>Streets</u>	<u>Street</u>	<u>Development</u>	<u>Assessment</u>	<u>Retirement</u>	<u>Project</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Authority</u>	<u>Obligation</u>	<u>Obligation</u>	<u>Fund</u>	<u>Funds</u>
	<u>Bond Fund</u>				<u>Bond Fund</u>	<u>Bond Fund</u>		
<b><u>Assets</u></b>								
Cash & Cash Equivalents	\$ 19,856.36	\$ 2,405.06	\$ 1,632.15	\$ 1,589.37	\$ 230,588.47	\$ 9,113.34	\$ 248.51	\$ 265,433.26
Taxes Receivable	9,268.49	5,781.13	2,433.87	7,187.16	-	-	-	24,670.65
Grant Receivable	-	-	-	-	-	-	141,026.49	141,026.49
Due From Other Funds	100.00	17,839.23	-	1,051.07	-	9,496.41	-	28,486.71
<u>Total Assets</u>	<u>\$ 29,224.85</u>	<u>\$ 26,025.42</u>	<u>\$ 4,066.02</u>	<u>\$ 9,827.60</u>	<u>\$ 230,588.47</u>	<u>\$ 18,609.75</u>	<u>\$ 141,275.00</u>	<u>\$ 459,617.11</u>
<b><u>Liabilities &amp; Fund Equity</u></b>								
<b><u>Liabilities</u></b>								
Accounts Payable	\$ 3,632.22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,026.49	\$ 144,658.71
Due To Other Funds	18,890.30	-	-	-	9,496.41	-	100.00	28,486.71
<u>Total Liabilities</u>	<u>22,522.52</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,496.41</u>	<u>-</u>	<u>141,126.49</u>	<u>173,145.42</u>
<b><u>Fund Equity</u></b>								
Fund Balances:								
Reserved for Capital Projects	-	-	-	-	-	-	48.51	48.51
Reserved for Debt Service	-	-	-	-	221,092.06	18,609.75	-	239,701.81
Unreserved - Undesignated	6,702.33	26,025.42	4,066.02	9,827.60	-	-	100.00	46,721.37
<u>Total Fund Equity</u>	<u>6,702.33</u>	<u>26,025.42</u>	<u>4,066.02</u>	<u>9,827.60</u>	<u>221,092.06</u>	<u>18,609.75</u>	<u>148.51</u>	<u>286,471.69</u>
<u>Total Liab. &amp; Fund Equity</u>	<u>\$ 29,224.85</u>	<u>\$ 26,025.42</u>	<u>\$ 4,066.02</u>	<u>\$ 9,827.60</u>	<u>\$ 230,588.47</u>	<u>\$ 18,609.75</u>	<u>\$ 141,275.00</u>	<u>\$ 459,617.11</u>

The notes are an integral part of the statements.

**Village of Otter Lake**  
Governmental Funds  
Reconciliation of Fund Balances to the  
Statement of Net Assets (Deficit)  
For The Year Ended February 28, 2006

<b>Total Fund Balances for Governmental Funds</b>	\$ 286,471.69
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital Assets used in Governmental Activities are not financial resources and are not reported in the Funds	5,085,876.79
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Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures	2,320,217.40
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Long-term bonds payable are not due and payable in the current period and are not reported in the Funds	(2,695,974.00)
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Accrued Interest Payable is not reported in the Funds	<u>(18,645.00)</u>
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<b>Net Assets of Governmental Activities</b>	<u><u>\$ 4,977,946.88</u></u>
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The notes are an integral part of the statements.

# Village of Otter Lake

## Statement of Revenues, Expenditures

### And Changes in Fund Balances

#### Governmental Funds

For The Year Ended February 28, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Downtown Development Authority	Debt Service Funds		Capital Project Fund	Totals Governmental Funds
					Special Assessment Obligation Bond Fund	Debt Retirement Obligation Bond Fund		
<b>Revenues</b>								
Property Taxes	\$ 82,253.53	\$ -	\$ -	\$ 16,438.38	\$ -	\$ -	\$ -	\$ 98,691.91
Special Assessments	-	-	-	-	141,091.29	17,841.74	-	158,933.03
Intergovernmental Revenue	50,152.12	32,355.38	13,621.75	-	-	-	-	96,129.25
Charges for Services	34,931.52	-	-	-	-	-	-	34,931.52
Interest Earnings	4,731.51	54.70	17.16	-	5,663.74	416.15	-	10,883.26
<u>Miscellaneous Revenues</u>								
Park & Recreation	53,762.62	-	-	-	-	-	-	53,762.62
Grant Proceeds	451,079.87	-	-	-	-	-	1,600,026.49	2,051,106.36
Bond Proceeds	-	-	-	-	-	-	1,623,406.06	1,623,406.06
Miscellaneous	19,604.83	-	-	-	-	-	22.00	19,626.83
<u>Total Miscellaneous Revenues</u>	<u>524,447.32</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,223,454.55</u>	<u>3,747,901.87</u>
<u>Total Revenues</u>	<u>696,516.00</u>	<u>32,410.08</u>	<u>13,638.91</u>	<u>16,438.38</u>	<u>146,755.03</u>	<u>18,257.89</u>	<u>3,223,454.55</u>	<u>4,147,470.84</u>
<b>Expenditures</b>								
General Government	112,782.70	-	-	-	-	-	-	112,782.70
Public Safety	26,825.35	-	-	-	-	-	-	26,825.35
Public Works	76,329.56	34,157.40	15,466.22	6,610.78	-	-	-	132,563.96
Recreation & Culture	39,712.24	-	-	-	-	-	-	39,712.24
Capital Outlay / Construction in Process	470,567.93	-	-	-	-	-	3,206,243.99	3,676,811.92
Debt Service :								
Principal	19,035.00	-	-	-	4,000.00	1,000.00	-	24,035.00
Interest	7,357.33	-	-	-	65,359.91	9,210.02	-	81,927.26
<u>Total Expenditures</u>	<u>752,610.11</u>	<u>34,157.40</u>	<u>15,466.22</u>	<u>6,610.78</u>	<u>69,359.91</u>	<u>10,210.02</u>	<u>3,206,243.99</u>	<u>4,094,658.43</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<u>(56,094.11)</u>	<u>(1,747.32)</u>	<u>(1,827.31)</u>	<u>9,827.60</u>	<u>77,395.12</u>	<u>8,047.87</u>	<u>17,210.56</u>	<u>52,812.41</u>
 Operating Transfers In (Out)	 -	 -	 -	 -	 17,772.41	 70.89	 (17,843.30)	 -
<b>Net Changes in Fund Balances</b>	<b>(56,094.11)</b>	<b>(1,747.32)</b>	<b>(1,827.31)</b>	<b>9,827.60</b>	<b>95,167.53</b>	<b>8,118.76</b>	<b>(632.74)</b>	<b>52,812.41</b>
<b>Fund Balances - Beginning of Year</b>	<b>62,796.44</b>	<b>27,772.74</b>	<b>5,893.33</b>	<b>-</b>	<b>125,924.53</b>	<b>10,490.99</b>	<b>781.25</b>	<b>233,659.28</b>
<b>Fund Balances - End of Year</b>	<b>\$ 6,702.33</b>	<b>\$ 26,025.42</b>	<b>\$ 4,066.02</b>	<b>\$ 9,827.60</b>	<b>\$ 221,092.06</b>	<b>\$ 18,609.75</b>	<b>\$ 148.51</b>	<b>\$ 286,471.69</b>

The notes are an integral part of the statements.

**Village of Otter Lake**  
Governmental Funds  
Reconciliation of Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For The Year Ended February 28, 2006

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 52,812.41
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlays as Expenditures; in the Statement of Activities, these costs are capitalized and allocated over their estimated useful lives as Depreciation	3,676,811.92
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(158,933.03)
Repayment of Bond Principal is an Expenditure in the Governmental Funds, but not in the Statement of Activities (where it reduces Long-Term Debt)	24,035.00
Bond proceeds and loan proceeds are not reported as financing sources on the statement of activities	(1,623,406.06)
Special assessment interest revenue is not separated as Revenue in the Governmental Funds, however, it is separated as the special assessment is received for the statement of activities.	64,663.43
Depreciation is an Expenditures for the Statement of Activities, but is not reported in the Governmental Funds	<u>(27,336.97)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 2,008,646.70</u></u>

The notes are an integral part of the statements.

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

The accounting methods and procedures adopted by the Village of Otter Lake, Lapeer & Genesee Counties, Michigan, conform to Generally Accepted Accounting Principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Village's Comprehensive Annual Financial Report.

**1. Summary of Significant Accounting Policies**

**Financial Reporting Entity**

The Village was incorporated under the laws of the State of Michigan in 1883 and operates under a council form of government. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village (the primary government) and its component units. The component units discussed below are included in the Village reporting entity because of the significance of their operational or financial relationships with the Village.

**Component Units** - In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or discretely presented component units.

**Blended Component Units** - The Downtown Development Authority (DDA) of the Village of Otter Lake, an entity legally separate from the Village, is governed by a board appointed by the Village Council. For financial reporting purposes, the DDA is reported as if it were part of the Village's operations because its purpose is to finance and provide assistance to businesses and citizens within the DDA District of the Village.

**Government-wide and Fund Statements Fund**

The Government-wide Financial Statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all the nonfiduciary activities of the Village (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Village reports the following major governmental funds:

**General Fund** - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the Village. Funding is provided primarily through State-shared gas and weight taxes.

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

**Local Streets Fund** – The Local Streets Fund accounts for maintenance and improvement activities for streets designated as “local” within the Village. Funding is provided primarily through State-shared gas and weight taxes.

**Downtown Development Authority** - The Downtown Development Authority (DDA) of the Village of Otter Lake, an entity legally separate from the Village, is governed by a board appointed by the Village Council. For financial reporting purposes, the DDA is reported as if it were part of the Village’s operations because its purpose is to finance and provide assistance to businesses and citizens within the DDA District of the Village.

**Special Assessment Obligation Bond Fund (Debt Service Fund)** - The fund accounts for the collection of special assessments within the Village limits. The assessments are for the bond repayment.

**Debt Retirement Obligation Bond (Debt Service Fund)** - The fund accounts for the collection of special assessments outside the Village limits.

**Capital Project Fund** - The fund accounts for construction of the sewer collection and treatment system.

**Measurement Focus and Basis of Accounting**

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenues, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Village. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

**Cash** - The Village does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Village's investments.

**Investments** - Debt securities are valued at cost since it is generally the policy of the Village to hold such investments until they mature.

**Due to and Due from Other Funds** - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

**Property Tax Revenues** - Property taxes are levied on December 1 based on the assessed value of property as listed on the previous December 31. Assessed values are an approximation of market value. A revaluation of all real property must be made every year.

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

**Vacation, Sick Leave, & Other Compensated Absences** - The Village has an agreement with its employees in the department of public works that requires the payment of compensation during absence from duty. Each employee (two), has the right to three weeks paid vacation during the fiscal year. If the employees have days left over at the end of the fiscal year, they are paid for those days and no days are carried over into the next fiscal year.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Inventories and supplies held by the Water Fund and the Sewer Fund, which are immaterial in amount, have not been recognized. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Government-wide and Fund Financial Statements.

**Capital Assets** - Capital assets, which include buildings and equipment, are reported in the applicable governmental column in the Government-wide Financial Statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	40 years
Water & Sewer Distribution Systems	20 to 75 years
Buildings & Building Improvements	20 to 40 years
Machinery & Equipment	3 to 20 years

**Long-Term Obligations** - In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Accounting Changes**

**GASB Statement No. 34** – Effective March 1, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.



**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

- Government-wide Financial Statements (statement of net assets (deficit) and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets (deficit) includes assets not previously accounted for by the Village as well as assets previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

## **2. Stewardship, Compliance, and Accountability**

### **Budgetary Information**

The Village is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds, Debt Service Funds, Capital Project Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

In the body of the financial statements, the Village actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The budget is used by the Village Council as a management tool during the year for all budgetary funds. The budgets are adopted on a cash basis, which is not consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level. Budgets for the General Fund and the major Special Revenue Funds, Debt Service Funds, and Capital Project Funds are presented in the required supplemental information.

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

During the year ended February 28, 2006, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
<b>General Fund</b>			
Public Safety	\$ 24,896	\$ 26,825	\$ 1,929
Public Works	75,258	76,329	1,071
Recreation & Culture	39,342	39,712	370
Debt Service - Principal	-	19,035	19,035
Debt Service - Interest	-	7,357	7,357
<b>Major Streets Fund</b>	19,755	34,157	14,402
<b>Local Streets Fund</b>	5,338	15,466	10,128
<b>Downtown Development Authority</b>	-	6,611	6,611
<b>Special Assessment Obligation Bond Fund</b>	-	69,360	69,360
<b>Debt Retirement Obligation Bond Fund</b>	-	10,210	10,210
<b>Capital Project Fund</b>	-	3,206,244	3,206,244

### 3. Cash and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Total Primary Government</u>
Cash & Cash Equivalents	<u>\$ 265,433</u>	<u>\$ 265,433</u>

The Village's deposits are in accordance with statutory authority; the Village does not have an investment policy. As of February 28, 2006, the balance sheet carrying amount of cash deposits was \$265,433. The bank balance as of February 28, 2006, was \$265,433, of which \$100,000 was covered by FDIC insurance and \$-0- was collateralized.

All cash deposits and investments of the Village are held by the Village in the Village's name.

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

The GASB Statement 3 risk disclosures for the Local Unit's investments are as follows:

<b>Investment Type</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>Carrying Amount</b>	<b>Market Value</b>
Risk Categorized		NONE			
Operating Funds					
US Treasury Bonds					
Investment in Deferred					
Compensation Plans					
Total Risk-Categorized					
Investments					

The cash and investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1	Insured or registered, or securities held by the Village or its agent in the Village's name.
Category 2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name.
Category 3	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Village's name.

#### 4. Property Taxes

The Village is responsible for collecting and distributing property taxes in accordance with enabling state legislation. Property taxes become a lien on the first day of July of the levy year and may be paid by the following October 1.

Property taxes are recognized in compliance with NCGAI-3, which states that such revenue is recorded when it becomes measurable and available.

The Village levied the following taxes:

General Governmental Services	11.8638	mills
Streets	1.5000	mills
Total	13.3638	

Special Assessments:

Sanitation - Parcel with House	\$98.88
Fire Authority - Genesee County	
Vacant Parcel	\$30.00
Parcel with Building	\$60.00

#### 5. Deficit Fund Balance of Individual Funds

None

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

**6. Capital Assets**

Capital Assets activity of the Village's governmental activities (and business-type) was as follows:

	<b>Balance March 1, 2005</b>	<b>Additions</b>	<b>Disposals &amp; Adjustments</b>	<b>Balance February 28, 2006</b>
<b>Governmental Activities:</b>				
Capital Assets not being Depreciated - Land	\$ 57,700	\$ 4,463	\$ -	\$ 62,163
Capital Assets Being Depreciated:				
Construction in Process	931,589	3,206,244	-	4,137,833
Infrastructure	350,000	466,106	-	816,106
Buildings & Building Improvements	90,651	-	-	90,651
Machinery & Equipment	132,486	-	-	132,486
Total Capital Assets being Depreciated	1,504,726	3,672,350	-	5,177,076
Accumulated Depreciation:				
Construction in Process	-	-	-	-
Infrastructure	30,625	14,576	-	45,201
Buildings & Building Improvements	56,793	2,685	-	59,478
Machinery & Equipment	38,606	10,076	-	48,682
Total Accumulated Depreciation	126,024	27,337	-	153,361
<b>Net Capital Assets</b>	<b>\$ 1,436,402</b>	<b>\$ 3,649,476</b>	<b>\$ -</b>	<b>\$ 5,085,878</b>

**6. Capital Assets - Continued**

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental Activities:</b>	
General Government	\$ 1,403
Public Works	25,454
Recreation & Culture	480
Total Governmental Activities	<u>\$ 27,337</u>

**7. Interfund Receivables, Payables, & Transfers**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "Due from other funds" or "Due to other funds" on the balance sheet. The amounts of interfund receivables and payables are as follows:

	<b>Due From Other Funds</b>		<b>Due To Other Funds</b>
General Fund	\$ 100	Capital Project Fund	\$ 100
Special Assessment Obligation Bond Fund	9,496	Debt Retirement Obligation Bond Fund	9,496
Downtown Development Authority	1,051	General Fund	1,051
Major Streets Fund	17,839	General Fund	17,839
Total	<u>\$ 28,486</u>	Total	<u>\$ 28,486</u>

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

Interfund Transfers reported in the Fund Statements are as follows:

	<u>Operating Transfers In</u>		<u>Operating Transfers Out</u>
S.A. Obligation Bond Fund	\$ 17,772	Capital Project Fund	\$ 17,772
Debt Retirement Obligation Bond Fund	71	Capital Project Fund	71

**8. Long-Term Debt**

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>						
General Obligation Bonds & Contracts						
General Obligation Limited Tax						
Wastewater System Bonds, Series B						
Amount of Issue - \$425,000		\$1,000 -				
Maturing through 2044	4.63%	\$15,000	\$ 425,000	\$ (1,000)	\$ 424,000	\$ 9,000
Wastewater System Special						
Assessment Bonds, Series A						
Amount of Issue - \$2,115,000		\$4,000 -				
Maturing through 2044	4.50%	\$55,000	\$ 2,115,000	\$ (4,000)	\$ 2,111,000	\$ 56,000
MDOT State Infrastructure Bank Program						
Amount of Issue - \$140,000						
Maturing through 2013	4.00%	\$16,244	\$ 119,834	\$ (11,451)	\$ 108,383	\$ 11,909
Chase Equipment Leasing, Inc - GMC Dump Truck						
Amount of Issue - \$60,175						
Maturing through 2012	4.15%	\$10,081	\$ 60,175	\$ (7,584)	\$ 52,591	\$ 7,899
<b>Total Governmental Activities</b>			<u>\$ 2,720,009</u>	<u>\$ (24,035)</u>	<u>\$ 2,695,974</u>	<u>\$ 84,808</u>

Annual debt service requirements to maturity for the above governmental bond and contract obligations are as follows:

Years Ending February 28,	<b>Governmental Activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 84,808	\$ 121,123	\$ 205,931
2008	85,612	117,383	202,995
2009	86,448	113,608	200,056
2010	87,319	109,800	197,119
2011	88,224	105,956	194,180
2012-2016	378,562	482,022	860,584
2017-2021	325,000	396,781	721,781
2022-2026	325,000	323,344	648,344
2027-2031	325,000	249,906	574,906
2032-2036	325,000	176,469	501,469
2037-2041	325,000	103,013	428,013
2042-2045	260,000	29,437	289,437
<b>Total</b>	<u>\$ 2,695,973</u>	<u>\$ 2,328,842</u>	<u>\$ 5,024,815</u>

**Village of Otter Lake**  
Notes to the Financial Statements  
For The Year Ended February 28, 2006

**9. Restricted Donated Property**

In December of 2001, individuals donated land to the Village with the restriction that it always be used for both municipal park and municipal utility purposes. If for any reason it is not used for those purposes, the land reverts back to the donors and/or their heirs. The value placed on the land at the time of donation was \$57,700.

**10. Retirement Plan**

The Village has a defined contribution pension plan through Municipal Employee's Retirement Systems (MERS), a state administered multi-employer agent pension plan, established by Act 427, Public Acts of 1984. The Village's contribution for the year ended February 28, 2006, was \$2,427.34.

**11. Risk Management**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees. The Village has purchased commercial insurance for the various risks of loss stated above.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage's obtained through commercial insurance during the past year.

### **Required Supplemental Information**

**Village of Otter Lake**  
Required Supplemental Information  
Budgetary Comparison Schedule  
General Fund  
For The Year Ended February 28, 2006

<b><u>Revenues</u></b>	<b><u>Original Budget</u></b>	<b><u>Amended Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance with Amended Budget</u></b>
Property Taxes	\$ 87,745.00	\$ 79,447.27	\$ 82,253.53	\$ 2,806.26
State Shared Revenue	47,100.00	49,607.12	50,152.12	545.00
Charges for Services	19,600.00	19,349.92	34,931.52	15,581.60
Interest Earnings	385.00	4,744.85	4,731.51	(13.34)
<b><u>Miscellaneous Revenues</u></b>				
Park & Recreation	46,900.00	53,698.12	53,762.62	64.50
Grant Proceeds	431,019.00	451,079.87	451,079.87	-
Loan Proceeds	-	-	-	-
Miscellaneous	15,000.00	18,582.70	19,604.83	1,022.13
<b><u>Total Miscellaneous Revenues</u></b>	<b><u>492,919.00</u></b>	<b><u>523,360.69</u></b>	<b><u>524,447.32</u></b>	<b><u>1,086.63</u></b>
<b><u>Total Revenues</u></b>	<b><u>647,749.00</u></b>	<b><u>676,509.85</u></b>	<b><u>696,516.00</u></b>	<b><u>20,006.15</u></b>



**Village of Otter Lake**  
Required Supplemental Information  
Budgetary Comparison Schedule  
General Fund  
For The Year Ended February 28, 2006

<b>Expenditures</b>	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
General Government				
Legislative	\$ -	\$ -	\$ 7,225.00	\$ -
Clerk	-	-	18,653.61	-
Treasurer	-	-	14,436.80	-
Payroll Taxes	-	-	6,793.83	-
Village Hall & Grounds	-	-	39,098.02	-
Elections	-	-	1,474.91	-
Professional Fees	-	-	11,410.00	-
Chamber of Commerce	-	-	2,130.58	-
Cemetery	-	-	1,073.69	-
Insurance	-	-	10,486.26	-
<u>Total General Government</u>	<u>132,741.38</u>	<u>117,325.98</u>	<u>112,782.70</u>	<u>4,543.28</u>
Public Safety				
Fire Protection	-	-	1,910.00	-
Police	-	-	266.11	-
Street Lights	-	-	6,450.24	-
Sanitation	-	-	18,199.00	-
<u>Total Public Safety</u>	<u>27,294.00</u>	<u>24,896.11</u>	<u>26,825.35</u>	<u>(1,929.24)</u>
Public Works	77,375.00	75,258.01	76,329.56	(1,071.55)
Recreation & Culture	45,640.00	39,342.30	39,712.24	(369.94)
Capital Outlay	459,917.13	482,349.25	470,567.93	11,781.32
Debt Service - Principal	-	-	19,035.00	(19,035.00)
Debt Service - Interest	-	-	7,357.33	(7,357.33)
<u>Total Expenditures</u>	<u>742,967.51</u>	<u>739,171.65</u>	<u>752,610.11</u>	<u>(13,438.46)</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>(95,218.51)</b>	<b>(62,661.80)</b>	<b>(56,094.11)</b>	<b>33,444.61</b>
<u>Operating Transfers In (Out)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Excess of Revenues &amp; Operating Transfers In Over Expenditures &amp; Operating Transfers Out</u></b>	<b>(95,218.51)</b>	<b>(62,661.80)</b>	<b>(56,094.11)</b>	<b>6,567.69</b>
<b><u>Fund Balance - Beginning of Year</u></b>	<b>82,548.51</b>	<b>70,679.87</b>	<b>62,796.44</b>	<b>(7,883.43)</b>
<b><u>Fund Balance - End of Year</u></b>	<b>\$ (12,670.00)</b>	<b>\$ 8,018.07</b>	<b>\$ 6,702.33</b>	<b>\$ (1,315.74)</b>

**Village of Otter Lake**  
Required Supplemental Information  
Budgetary Comparison Schedule  
Major Streets Fund  
For The Year Ended February 28, 2006

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
<b><u>Revenues</u></b>				
Intergovernmental Revenue	\$ 30,000.00	\$ 29,807.92	\$ 32,355.38	\$ 2,547.46
Interest Income	-	-	54.70	54.70
<u>Total Revenues</u>	<u>30,000.00</u>	<u>29,807.92</u>	<u>32,410.08</u>	<u>2,602.16</u>
<b><u>Expenditures</u></b>				
Salaries, Wages & Fringes	-	-	11,400.25	-
Supplies	-	-	11,855.81	-
Equipment Rent	-	-	10,901.34	-
<u>Total Expenditures</u>	<u>18,840.00</u>	<u>19,754.66</u>	<u>34,157.40</u>	<u>(14,402.74)</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<u>11,160.00</u>	<u>10,053.26</u>	<u>(1,747.32)</u>	<u>(11,800.58)</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In (Out)	-	-	-	-
<b><u>Net Change in Fund Balance</u></b>	<u>11,160.00</u>	<u>10,053.26</u>	<u>(1,747.32)</u>	<u>(11,800.58)</u>
<b><u>Fund Balance - Beginning of Year</u></b>	<u>-</u>	<u>-</u>	<u>27,772.74</u>	<u>27,772.74</u>
<b><u>Fund Balance - End of Year</u></b>	<u>\$ 11,160.00</u>	<u>\$ 10,053.26</u>	<u>\$ 26,025.42</u>	<u>\$ 15,972.16</u>

**Village of Otter Lake**  
Required Supplemental Information  
Budgetary Comparison Schedule  
Local Streets Fund  
For The Year Ended February 28, 2006

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
<b><u>Revenues</u></b>				
Intergovernmental Revenue	\$ 12,100.00	\$ 12,549.20	\$ 13,621.75	\$ 1,072.55
Interest Income	-	-	17.16	17.16
<b><u>Total Revenues</u></b>	<b>12,100.00</b>	<b>12,549.20</b>	<b>13,638.91</b>	<b>1,089.71</b>
<b><u>Expenditures</u></b>				
Salaries, Wages & Fringes	-	-	7,101.22	-
Supplies	-	-	3,855.93	-
Equipment Rental	-	-	4,201.07	-
Administration & Miscellaneous	-	-	308.00	-
<b><u>Total Expenditures</u></b>	<b>10,500.00</b>	<b>5,338.21</b>	<b>15,466.22</b>	<b>(10,128.01)</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>1,600.00</b>	<b>7,210.99</b>	<b>(1,827.31)</b>	<b>(9,038.30)</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In (Out)	-	-	-	-
<b><u>Net Change in Fund Balance</u></b>	<b>1,600.00</b>	<b>7,210.99</b>	<b>(1,827.31)</b>	<b>(9,038.30)</b>
<b><u>Fund Balance - Beginning of Year</u></b>	<b>-</b>	<b>-</b>	<b>5,893.33</b>	<b>5,893.33</b>
<b><u>Fund Balance - End of Year</u></b>	<b>\$ 1,600.00</b>	<b>\$ 7,210.99</b>	<b>\$ 4,066.02</b>	<b>\$ (3,144.97)</b>

**Village of Otter Lake**  
Required Supplemental Information  
Budgetary Comparison Schedule  
Downtown Development Authority  
For The Year Ended February 28, 2006

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
<b><u>Revenues</u></b>				
Property Taxes	\$ -	\$ -	\$ 16,438.38	\$ 16,438.38
Interest Income	-	-	-	-
<b><u>Total Revenues</u></b>	<b>-</b>	<b>-</b>	<b>16,438.38</b>	<b>16,438.38</b>
<b><u>Expenditures</u></b>				
Administration Costs	-	-	6,610.78	-
<b><u>Total Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>6,610.78</b>	<b>(6,610.78)</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>9,827.60</b>	<b>9,827.60</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In (Out)	-	-	-	-
<b><u>Net Change in Fund Balance</u></b>	<b>-</b>	<b>-</b>	<b>9,827.60</b>	<b>9,827.60</b>
<b><u>Fund Balance - Beginning of Year</u></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>Fund Balance - End of Year</u></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,827.60</b>	<b>\$ 9,827.60</b>

**Village of Otter Lake**  
Required Supplemental Information  
Budgetary Comparison Schedule  
Debt Service Fund - Special Assessment Obligation Bond Fund  
For The Year Ended February 28, 2006

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
<b><u>Revenues</u></b>				
Special Assessment	\$ -	\$ -	\$ 141,091.29	\$ 141,091.29
Interest Income	-	-	5,663.74	5,663.74
<b><u>Total Revenues</u></b>	<b>-</b>	<b>-</b>	<b>146,755.03</b>	<b>146,755.03</b>
<b><u>Expenditures</u></b>				
Debt Service - Principal	-	-	4,000.00	(4,000.00)
Debt Service - Interest	-	-	65,359.91	(65,359.91)
<b><u>Total Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>69,359.91</b>	<b>(69,359.91)</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>77,395.12</b>	<b>77,395.12</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In (Out)	-	-	17,772.41	17,772.41
<b><u>Net Change in Fund Balance</u></b>	<b>-</b>	<b>-</b>	<b>95,167.53</b>	<b>95,167.53</b>
<b><u>Fund Balance - Beginning of Year</u></b>	<b>-</b>	<b>-</b>	<b>125,924.53</b>	<b>125,924.53</b>
<b><u>Fund Balance - End of Year</u></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 221,092.06</b>	<b>\$ 221,092.06</b>

# Village of Otter Lake

Required Supplemental Information

Budgetary Comparison Schedule

Debt Service Fund - Debt Retirement Obligation Bond Fund

For The Year Ended February 28, 2006

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
<b><u>Revenues</u></b>				
Special Assessment	\$ -	\$ -	\$ 17,841.74	\$ 17,841.74
Interest Income	-	-	416.15	416.15
<b><u>Total Revenues</u></b>	<b>-</b>	<b>-</b>	<b>18,257.89</b>	<b>18,257.89</b>
<b><u>Expenditures</u></b>				
Debt Service - Principal	-	-	1,000.00	(1,000.00)
Debt Service - Interest	-	-	9,210.02	(9,210.02)
<b><u>Total Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>10,210.02</b>	<b>#####</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>8,047.87</b>	<b>8,047.87</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In (Out)	-	-	70.89	70.89
<b><u>Net Change in Fund Balance</u></b>	<b>-</b>	<b>-</b>	<b>8,118.76</b>	<b>8,118.76</b>
<b><u>Fund Balance - Beginning of Year</u></b>	<b>-</b>	<b>-</b>	<b>10,490.99</b>	<b>10,490.99</b>
<b><u>Fund Balance - End of Year</u></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,609.75</b>	<b>\$ 18,609.75</b>

**Village of Otter Lake**  
Required Supplemental Information  
Budgetary Comparison Schedule  
Capital Project Fund  
For The Year Ended February 28, 2006

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance with Amended Budget</b>
<b><u>Revenues</u></b>				
Grant Proceeds	\$ -	\$ -	\$ 1,600,026.49	\$ 1,600,026.49
Bond Proceeds	-	-	1,623,406.06	1,623,406.06
Other Revenues	-	-	22.00	22.00
<b><u>Total Revenues</u></b>	<b>-</b>	<b>-</b>	<b>3,223,454.55</b>	<b>3,223,454.55</b>
<b><u>Expenditures</u></b>				
Construction in Process / Capital Outlay				
Attorney	-	-	4,022.45	(4,022.45)
Operating Supplies	-	-	919.38	(919.38)
Other	-	-	4,583.00	(4,583.00)
Collection System	-	-	1,708,635.16	(1,708,635.16)
Wastewater Treatment Plant	-	-	1,342,222.50	(1,342,222.50)
Engineering	-	-	145,861.50	(145,861.50)
<b><u>Total Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>3,206,243.99</b>	<b>(3,206,243.99)</b>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<b>-</b>	<b>-</b>	<b>17,210.56</b>	<b>17,210.56</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In (Out)	-	-	(17,843.30)	(17,843.30)
<b><u>Net Change in Fund Balance</u></b>	<b>-</b>	<b>-</b>	<b>(632.74)</b>	<b>(632.74)</b>
<b><u>Fund Balance - Beginning of Year</u></b>	<b>-</b>	<b>-</b>	<b>781.25</b>	<b>781.25</b>
<b><u>Fund Balance - End of Year</u></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 148.51</b>	<b>\$ 148.51</b>

### **Other Supplemental Information**



**Village of Otter Lake**  
Other Supplemental Information  
Schedule of Indebtedness  
February 28, 2006

County of Lapeer, State of Michigan  
General Obligation Limited Tax  
Wastewater System Bonds, Series B

**Dated December 22, 2004**  
**Original Issue \$425,000**

<u>Year</u>	<u>Interest Rate</u>	<u>Series B Principal Due 12/01 1-Dec</u>	<u>Interest Due 1-Jun</u>	<u>Interest Due 1-Dec</u>	<u>Total Principal &amp; Interest Requirements</u>
2006	4.625%	\$ 9,000	\$ 9,805.00	\$ 9,805.00	\$ 28,610.00
2007	4.625%	10,000	9,596.88	9,596.88	29,193.76
2008	4.625%	10,000	9,365.63	9,365.63	28,731.26
2009	4.625%	10,000	9,134.38	9,134.38	28,268.76
2010	4.625%	10,000	8,903.13	8,903.13	27,806.26
2011	4.625%	10,000	8,671.88	8,671.88	27,343.76
2012	4.625%	10,000	8,440.63	8,440.63	26,881.26
2013	4.625%	10,000	8,209.38	8,209.38	26,418.76
2014	4.625%	10,000	7,978.13	7,978.13	25,956.26
2015	4.625%	10,000	7,746.88	7,746.88	25,493.76
2016	4.625%	10,000	7,515.63	7,515.63	25,031.26
2017	4.625%	10,000	7,284.38	7,284.38	24,568.76
2018	4.625%	10,000	7,053.13	7,053.13	24,106.26
2019	4.625%	10,000	6,821.88	6,821.88	23,643.76
2020	4.625%	10,000	6,590.63	6,590.63	23,181.26
2021	4.625%	10,000	6,359.38	6,359.38	22,718.76
2022	4.625%	10,000	6,128.13	6,128.13	22,256.26
2023	4.625%	10,000	5,896.88	5,896.88	21,793.76
2024	4.625%	10,000	5,665.63	5,665.63	21,331.26
2025	4.625%	10,000	5,434.38	5,434.38	20,868.76
2026	4.625%	10,000	5,203.13	5,203.13	20,406.26
2027	4.625%	10,000	4,971.88	4,971.88	19,943.76
2028	4.625%	10,000	4,740.63	4,740.63	19,481.26
2029	4.625%	10,000	4,509.38	4,509.38	19,018.76
2030	4.625%	10,000	4,278.13	4,278.13	18,556.26
2031	4.625%	10,000	4,046.88	4,046.88	18,093.76
2032	4.625%	10,000	3,815.63	3,815.63	17,631.26
2033	4.625%	10,000	3,584.38	3,584.38	17,168.76
2034	4.625%	10,000	3,353.13	3,353.13	16,706.26
2035	4.625%	10,000	3,121.88	3,121.88	16,243.76
2036	4.625%	10,000	2,890.63	2,890.63	15,781.26
2037	4.625%	10,000	2,659.38	2,659.38	15,318.76
2038	4.625%	15,000	2,428.13	2,428.13	19,856.26
2039	4.625%	15,000	2,081.25	2,081.25	19,162.50
2040	4.625%	15,000	1,734.38	1,734.38	18,468.76
2041	4.625%	15,000	1,387.50	1,387.50	17,775.00
2042	4.625%	15,000	1,040.63	1,040.63	17,081.26
2043	4.625%	15,000	693.75	693.75	16,387.50
2044	4.625%	15,000	346.70	346.70	15,693.40
<u>Total System Bonds, Series B</u>		<u>\$ 424,000</u>	<u>\$ 209,489.37</u>	<u>\$ 209,489.37</u>	<u>\$ 842,978.74</u>

**Village of Otter Lake**  
Other Supplemental Information  
Schedule of Indebtedness  
February 28, 2006

**County of Lapeer, State of Michigan**  
**Wastwater System Special**  
**Assessment Bonds, Series A**

**Dated December 22, 2004**  
**Original Issue \$2,115,000**

<u>Year</u>	<u>Interest Rate</u>	<u>Series B Principal Due 12/01 1-Dec</u>	<u>Interest Due 1-Jun</u>	<u>Interest Due 1-Dec</u>	<u>Total Principal &amp; Interest Requirements</u>
2006	4.500%	\$ 56,000.00	\$ 47,497.50	\$ 47,497.50	\$ 150,995.00
2007	4.500%	55,000.00	46,237.50	46,237.50	147,475.00
2008	4.500%	55,000.00	45,000.00	45,000.00	145,000.00
2009	4.500%	55,000.00	43,762.50	43,762.50	142,525.00
2010	4.500%	55,000.00	42,525.00	42,525.00	140,050.00
2011	4.500%	55,000.00	41,287.50	41,287.50	137,575.00
2012	4.500%	55,000.00	40,050.00	40,050.00	135,100.00
2013	4.500%	55,000.00	38,812.50	38,812.50	132,625.00
2014	4.500%	55,000.00	37,575.00	37,575.00	130,150.00
2015	4.500%	55,000.00	36,337.50	36,337.50	127,675.00
2016	4.500%	55,000.00	35,100.00	35,100.00	125,200.00
2017	4.500%	55,000.00	33,862.50	33,862.50	122,725.00
2018	4.500%	55,000.00	32,625.00	32,625.00	120,250.00
2019	4.500%	55,000.00	31,387.50	31,387.50	117,775.00
2020	4.500%	55,000.00	30,150.00	30,150.00	115,300.00
2021	4.500%	55,000.00	28,912.50	28,912.50	112,825.00
2022	4.500%	55,000.00	27,675.00	27,675.00	110,350.00
2023	4.500%	55,000.00	26,437.50	26,437.50	107,875.00
2024	4.500%	55,000.00	25,200.00	25,200.00	105,400.00
2025	4.500%	55,000.00	23,962.50	23,962.50	102,925.00
2026	4.500%	55,000.00	22,725.00	22,725.00	100,450.00
2027	4.500%	55,000.00	21,487.50	21,487.50	97,975.00
2028	4.500%	55,000.00	20,250.00	20,250.00	95,500.00
2029	4.500%	55,000.00	19,012.50	19,012.50	93,025.00
2030	4.500%	55,000.00	17,775.00	17,775.00	90,550.00
2031	4.500%	55,000.00	16,537.50	16,537.50	88,075.00
2032	4.500%	55,000.00	15,300.00	15,300.00	85,600.00
2033	4.500%	55,000.00	14,062.50	14,062.50	83,125.00
2034	4.500%	55,000.00	12,825.00	12,825.00	80,650.00
2035	4.500%	55,000.00	11,587.50	11,587.50	78,175.00
2036	4.500%	55,000.00	10,350.00	10,350.00	75,700.00
2037	4.500%	55,000.00	9,112.50	9,112.50	73,225.00
2038	4.500%	50,000.00	7,875.00	7,875.00	65,750.00
2039	4.500%	50,000.00	6,750.00	6,750.00	63,500.00
2040	4.500%	50,000.00	5,625.00	5,625.00	61,250.00
2041	4.500%	50,000.00	4,500.00	4,500.00	59,000.00
2042	4.500%	50,000.00	3,375.00	3,375.00	56,750.00
2043	4.500%	50,000.00	2,250.00	2,250.00	54,500.00
2044	4.500%	50,000.00	1,125.00	1,125.00	52,250.00
<u>Total System Bonds, Series A</u>		<u>\$ 2,111,000.00</u>	<u>\$ 936,922.50</u>	<u>\$ 936,922.50</u>	<u>\$ 3,984,845.00</u>

**Village of Otter Lake**  
Other Supplemental Information  
Schedule of Indebtedness  
February 28, 2006

**MDOT State Infrastructure Bank Program**

**Dated July 1, 1999**  
**Original Issue \$140,000**

<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Principal Outstanding February 28,</b>		<b>Annual Interest Payable</b>
		<b>2006</b>	<b>2005</b>	
4.00%	9/1/2005	\$ -	\$ 11,451	\$ -
4.00%	9/1/2006	11,909	11,909	4,335
4.00%	9/1/2007	12,385	12,385	3,859
4.00%	9/1/2008	12,880	12,880	3,364
4.00%	9/1/2009	13,396	13,396	2,848
4.00%	9/1/2010	13,931	13,931	2,313
4.00%	9/1/2011	14,489	14,489	1,755
4.00%	9/1/2012	15,068	15,068	1,176
4.00%	9/1/2013	14,325	14,325	572
<u>Total General Obligation Bonds</u>		<u>\$ 108,383</u>	<u>\$ 119,834</u>	<u>\$ 20,222</u>

**Installment Purchase Contract Payable  
- GMC Dump Truck**

**Dated January 7, 2005**  
**Original Issue \$60,175**

<b>Interest Rate</b>	<b>Contract Due For The Year Ending</b>	<b>Principal Outstanding February 28,</b>		<b>Annual Interest Payable</b>
		<b>2006</b>	<b>2005</b>	
4.15%	1/7/2006	\$ -	\$ 7,584	\$ -
4.15%	1/7/2007	7,899	7,899	2,183
4.15%	1/7/2008	8,227	8,227	1,855
4.15%	1/7/2009	8,568	8,568	1,513
4.15%	1/7/2010	8,923	8,923	1,158
4.15%	1/7/2011	9,293	9,293	787
4.15%	1/7/2012	9,680	9,680	402
<u>Total Installment Purchase Contract Payable</u>		<u>\$ 52,590</u>	<u>\$ 60,174</u>	<u>\$ 7,898</u>
<u>Total General Obligation Bonds &amp; Contracts</u>		<u>\$ 2,695,973</u>	<u>\$ 180,008</u>	<u>\$ 2,320,944</u>

LEHN L. KING  
CERTIFIED PUBLIC ACCOUNTANT

3531 MAIN STREET  
MARLETTE, MICHIGAN 48453

Phone 989-635-3113  
Fax 989-635-5580

May 16, 2006

To the Village Council  
**Village of Otter Lake**  
Lapeer County, Michigan

In accordance with your request, I have made an examination of the financial statements of the Village of Otter Lake for the fiscal year ended February 28, 2006. During the course of my examination the following items came to my attention:

1. All paid bills must be approved for payment in the Minutes. Thus, a person should be able to trace paid bills to the Minutes. To do this, the bills should be listed in the Minutes or identified in such a manner as, "Paid bills in the amount of \$(Amount) from Check # \_\_\_\_\_ to Check # \_\_\_\_\_."
2. Per P.A. 621 of 1968, the board does not have authorization to spend money that exceeds the budget. The budget must be amended prior to it being exceeded. Amendments to the budget must be detailed as to the increase and decrease amount of each line item being changed. Also, a budget needs to be adopted for the Downtown Development Authority, Capital Project Fund, Special Assessment Obligation Bond Fund, and the Debt Retirement Obligation Bond Fund. Each of the Village's funds should have its own, separate adopted budget.
3. Labor and equipment hours for Major and Local Streets need to be kept on a more timely basis. These hours are to be used to compute the expenses charged to the Major and Local Streets. It is the Village's responsibility to keep accurate records to verify the amount charged for expenses in the Major and Local Streets.
4. The Village was and is required to establish and maintain a Repair, Replacement, and Improvement Fund for the Sewer System. The annual requirement is determined to be \$5,000. This amount must be deposited each year for the life of the loan. This must be deposited in a separate bank account. The first deposit needed to be made prior to January 2006.

From an overall viewpoint, the Village of Otter Lake is in good financial condition. The financial records maintained by the clerk and treasurer are in good order.

I thank the Village for the cooperation I received in the completion of this examination. Should you have any questions in connection with the above comments, please contact me at your convenience.

Sincerely,

*Lehn King*

Lehn L. King  
Certified Public Accountant

*Village of Otter Lake, Michigan*  
**Lapeer & Genesee Counties, Michigan**

Federal Awards  
Supplemental Information  
February 28, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1965, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Otter Lake - <i>SINGLE AUDIT</i>	County Lapeer & Genesee
Fiscal Year End February 28, 2006	Opinion Date May 16, 2006	Date Audit Report Submitted to State September 25, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES** ☒ **NO** ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements - <i>SINGLE AUDIT</i>	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lehn L. King, C.P.A.		Telephone Number 989-635-3113	
Street Address 3531 Main Street		City Marlette	State MI
Zip 48453			
Authorizing CPA Signature 	Printed Name Lehn King		License Number A248781

**Village of Otter Lake**  
Federal Awards  
Supplemental Information  
Year Ended February 28, 2006

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Members of the Village Council  
**Village of Otter Lake**  
Lapeer County, Michigan

### **Independent Auditor's Report**

I have audited the accompanying financial statements of the governmental activities, and each major fund, of the Village of Otter Lake, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Otter Lake, Michigan's management. My responsibility is to express opinions on these financial statements based on our audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. And audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Village of Otter Lake, Michigan as of February 28, 2006, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 20, 2006, on my consideration of the Village of Otter Lake, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Otter Lake, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Village of Otter Lake, Michigan. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lehn King*  
**Certified Public Accountant**

July 20, 2006



LEHN L. KING

Certified Public Accountant

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Members of the Village Council  
**Village of Otter Lake**  
Lapeer County, Michigan

**Report on Internal Control over Financial Reporting and on Compliance And  
Other Matters based on an Audit of Financial Statements Performed  
In Accordance with Government Auditing Standards**

I have audited the accompanying financial statements of the governmental activities, and each major fund information, of the Village of Otter Lake, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village of Otter Lake, Michigan's basic financial statements and have issued my report thereon dated July 20, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Village of Otter Lake, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

**Compliance and Other Matters.**

As part of obtaining reasonable assurance about whether the Village of Otter Lake, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, Village Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lehn King*

Certified Public Accountant

July 20, 2006

Phone 989-635-3113  
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Members of the Village Council  
**Village of Otter Lake**  
Lapeer County, Michigan

**Report on Compliance with Requirements Applicable to Each  
Major Program and Internal Control Over Compliance  
In Accordance with OMB Circular A-133**

I have audited the compliance of the Village of Otter Lake, Michigan, with the types of compliance requirements described in the U.S. Office Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2006. The Village of Otter Lake, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Otter Lake, Michigan's management. My responsibility is to express an opinion on the Village of Otter Lake, Michigan's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Otter Lake, Michigan's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Village of Otter Lake, Michigan's compliance with those requirements.

In my opinion, the Village of Otter Lake, Michigan, complied, in all material respects, with requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2006.

**Internal Control Over Compliance**

The management of the Village of Otter Lake, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I consider the Village of Otter Lake, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would be not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matter involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should be not used by anyone other than these specified parties.

*Lehn King*  
**Certified Public Accountant**

July 20, 2006

**Village of Otter Lake**  
Schedule of Expenditures of Federal Awards  
Year Ended February 28, 2006

<u>Federal Agency / Pass-through Agency / Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Project / Grant No.</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>				
Water or Waste System Grant Agreement	10.760	N/A	\$ 4,270,000	<u>\$ 3,224,087.29</u>
Total Federal Awards				<u><u>\$ 3,224,087.29</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

**Village of Otter Lake**  
Reconciliation of Basic Financial Statements  
Federal Revenue with Schedule of Expenditures of Federal Awards  
Year Ended February 28, 2006

Revenue from Federal Sources - As Reported on Financial Statements	\$ 3,223,423.55
 Miscellaneous	 <u>663.74</u>
 Federal Expenditures per the Schedule of Expenditures of Federal Awards	 <u><u>\$ 3,224,087.29</u></u>

**Village of Otter Lake**  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended February 28, 2006

**Note 1 – Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Otter Lake, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Village of Otter Lake**  
Schedule of Findings and Questioned Costs  
Year Ended February 28, 2006

**Section 1 - Summary of Auditor's Results**

**Financial Statements**

Type of Auditor's Report Issued: **Unqualified**

Internal Control over Financial Reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes **X** No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes **X** None reported

Noncompliance material to Financial Statements noted? \_\_\_\_\_

Yes **X** No

**Federal Awards**

Internal control over Major Program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes **X** No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes **X** None reported

Type of auditor report issued on compliance for Major Program(s): **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_

Yes **X** No

**Identification of Major Program(s):**

**CFDA No.**

**Name of Federal Program or Cluster**

10.760

Water or Waste System Grant

Dollar threshold used to distinguish between Type A and Type B Programs: **\$300,000**

Auditee qualified as low-risk auditee? \_\_\_\_\_

**X** Yes \_\_\_\_\_ No

**Section 2 - Financial Statement Audit Findings**

None

**Section 3 - Federal Program Audit Findings**

None